

State of Idaho

Legislative Services Office

Management Report

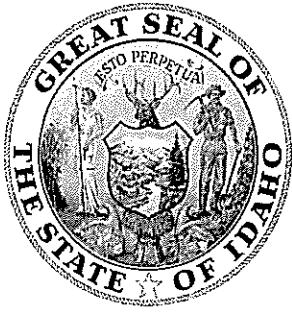
A communication to the Joint Finance-Appropriations Committee

OFFICE OF THE STATE TREASURER

FY 2008, 2009, AND 2010

Report MR15010
Date Issued: January 27, 2012

Serving Idaho's Citizen Legislature



Idaho Legislative Services Office
Legislative Audits Division

Don H. Berg, Manager

OFFICE OF THE STATE TREASURER

SUMMARY

We conducted a management review of the Office of the State Treasurer covering the fiscal years ended June 30, 2008, 2009, and 2010. Our review covered general administrative procedures and accounting controls to determine that activities are properly recorded and reported.

The intent of this review was not to express an opinion, but to provide general assurance on internal controls and to raise the awareness of management and others of any conditions and control weaknesses that may exist and offer recommendations for improvement.

CONCLUSION

We identified three significant conditions relating to expenditures of public funds which represent findings serious enough to report to the Idaho Attorney General pursuant to Idaho Code, Section 67-702(e) which states in part, "Report to the attorney general all facts which may indicate malfeasance, illegal expenditure of public funds or misappropriation of public funds or public property for such investigation or action, civil or criminal, as the attorney general may deem necessary."

FINDINGS AND RECOMMENDATIONS

There are three findings and recommendations in this report.

Finding 1 – Gasoline purchases of nearly \$8,000 are not allowable under State Travel Policy.

Finding 2 – Staff time and State General Funds are used to support programs not specifically authorized by statute.

Finding 3 – Travel costs for the annual bond rating trips are not paid through the State accounting system or properly documented, and some amounts exceeded allowed limits.

The complete findings are detailed on pages 1 through 5 of this report.

AGENCY RESPONSE

The Treasurer's Office has reviewed this report, and the Treasurer's complete response to the findings and recommendations is included in the Findings and Recommendation section of this report.

PRIOR FINDINGS AND RECOMMENDATIONS

The prior report contained two findings and recommendations which were evaluated as part of the current review and are satisfactorily closed.

FINANCIAL INFORMATION

The following financial data is for informational purposes only.

State Treasurer's Office (150) - Fiscal Year 2010

Fund	Fund Number	Beginning	Plus Receipts	Less	Ending	Investment Balance
		Appropriation/ Cash Balance		Disbursements	Appropriation**/ Cash Balance	
General Fund	0001	\$1,396,400		\$1,390,566	\$5,834	
Veteran's Cemetery Fund	0211	0	\$3,050	3,050	0	
Miscellaneous Revenue	0349	0	7,350	7,350	0	
Professional Services Fund	0475	232,641	752,773	888,853	96,561	
Millennium Income Fund	0499	0	5,010,252	5,010,252	0	
College Savings Fund	0505	7,743	67,530	4,850	70,424	
Millennium Fund	0540	74,206,495	6,007,774	3,247,393	76,966,875	
Millennium Fund Permanent Endowment	0545	3,278	22,483,795	20,059,416	2,427,657	\$96,108,460
Total Fund Balances		\$75,846,558	\$34,332,523	\$30,611,729	\$79,567,352	\$96,108,460

*The General Fund ending appropriation of \$5,834 was reverted.

State Treasurer's Office Control Agency (152) - Fiscal Year 2010

Fund	Fund Number	Beginning	Plus Receipts	Less	Ending	Investment Balance
		Appropriation/ Cash Balance		Disbursements	Appropriation**/ Cash Balance	
General Fund	0001	\$0	\$11,928,797	\$12,678,432	(\$749,635)	
Idaho Municipal Bond Bank Reserve Fund	0292	0	5,520	5,493	26	
Capitol Endowment Income Fund	0481	3,127	140	0	3,266	
Local Government Investment Pool	0625	0	344,914,261	344,914,261	0	\$1,177,146,117
Custodial Fund	0630	45,243	23,990,248	21,864,767	2,170,724	
Total Fund Balances		\$48,370	\$380,838,965	\$379,462,953	\$1,424,381	\$1,177,146,117

**The General Fund balance is closed by the State Controller's Office at the end of the year.

OTHER INFORMATION

We discussed other issues which, if addressed, would improve internal control, compliance, and efficiency.

This report is intended solely for the information and use of the State of Idaho and the Office of the State Treasurer and is not intended to be used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by the Idaho State Treasurer, Ron Crane, and his staff.

ASSIGNED STAFF

April Renfro, CPA, Managing Auditor
 Patrick Aggers, CPA, CFE, In-Charge Auditor
 Maresa Blessinger, Staff Auditor
 Kyle Wilmot, Staff Auditor

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FINDINGS AND RECOMMENDATIONS

FINDING 1

Gasoline purchases of nearly \$8,000 are not allowable under State Travel Policy.

The State Treasurer used a Chevron gasoline credit card issued to and paid for by the Office of the State Treasurer to purchase gasoline for his private vehicle. No travel vouchers or other documents were available to justify the purchases as necessary for official State business. Gasoline was purchased up to seven times each month during the three-year review period as follows:

FY 2008 total	\$2,713
FY 2009 total	2,513
FY 2010 total	<u>2,760</u>
Total	<u>\$7,986</u>

Nearly all gasoline purchases were made in the State Treasurer's city of residence, which is Nampa, Idaho.

State Travel Policy provides for mileage reimbursement when a traveler uses their private vehicle for official State travel and expressly prohibits any costs for personal reasons or commuting. A travel voucher must be submitted, attesting to the purpose and necessity of the official trip, and must be signed by the traveler and the department head to properly authorize and document reimbursements for mileage and other travel costs.

No travel vouchers were prepared, as required by Idaho Code, Section 67-2006, to document travel costs or attest that gasoline purchases were necessary and appropriate in the conduct of official business. No official schedules were available to identify the dates, locations, and distances traveled, or any local or statewide media stories or events involving the State Treasurer to support a business purpose for these gasoline purchases.

In addition, no gasoline purchases or mileage reimbursements were claimed or paid to any other staff of the Office during fiscal year 2010, which further indicates that mileage for official travel is not required.

RECOMMENDATION

We recommend that the Office of the State Treasurer discontinue the practice of purchasing gasoline for the State Treasurer's private vehicle for undocumented purposes and comply with Idaho Code and State Travel Policy by submitting travel vouchers to document official business travel and reimburse allowable mileage in accordance with policy.

AGENCY'S CORRECTIVE ACTION PLAN

The State Treasurer's Office disagrees with the finding and believes the gasoline purchases are within the State Policy. On page 4 of the State Travel Policies and Procedures, Item #7 reads, "The use of privately-owned automobiles, aircraft, or other conveyances may be authorized whenever it is more practical or beneficial to the state's mission than transportation by common carrier or state vehicles." On page 5 of the

same document, Item #9 reads, "*Home-to-office driving is only permissible when beginning or ending an authorized trip outside of regular business hours, or for other reasons considered in the best interest of the state and approved by the department director.*" The State Treasurer's Office has developed a procedure for documentation of expenses relating to gas card usage.

FINDING 2

Staff time and State General Funds are used to support programs not specifically authorized by statute.

The State Treasurer and members of his staff organize and directly participate in hosting an annual "Smart Women, Smart Money Conference" funded through a non-profit organization created by the State Treasurer. Each year during the three-year review period, staff time and \$10,000 from the Office's General Fund appropriation were provided to the non-profit organization to support this conference.

Entities of State government generally have only that power granted to it by the Legislature in statute, and the constitutional directive is clear that "no money shall be drawn from the treasury except in pursuit of an appropriation authorized by law." While the Office of the State Treasurer was created in the Constitution in the Executive Office, the Legislature establishes the authorized duties, responsibilities, and programs in statutes, which are primarily codified in Idaho Code, Title 67, Chapter 12.

The objective of this conference is not a specifically authorized program by the Legislature in the State Treasurer's Office, and the direct use of State General Funds and staff time to support this effort is therefore questionable. No formal contract between the Office and the non-profit organization exists or any other evidence that defines the objectives or benefits to the Office in exchange for the annual contributions and staff efforts.

The current organizational structure of this non-profit organization, on file with the Secretary of State's Office, lists a State Treasurer's Office employee as the Director. In addition, an investment management contractor who handles a substantial portion of the State Treasurer's investment activities is listed as the President. These relationships between the Treasurer's Office, the private non-profit organization, and the contract investment manager that handles billions of dollars of Idaho public funds, is ill-defined and at a minimum creates the appearance, if not the actuality of related party transactions, conflicts of interest, and biases in official transactions of the Office of the State Treasurer.

The State Treasurer's Office also actively promotes the following four other programs on its Web site, two of which are established in statute and two that are not:

"Ideal" College Savings Plan (Idaho Code, Section 33-5402) is a State-sponsored, tax advantage savings plan that helps families pay the cost of college.

Commemorative Silver Medallion (Idaho Code, Section 67-1223) was established to help support the maintenance of the Idaho Veteran's Cemetery through the sale of these silver coins.

ABC's of Credit Card Finance (no statutory authority) is available to high school seniors in Idaho and is designed to help students understand budgeting, spending, and credit cards.

Idaho Prime Loan Program (no statutory authority) is a cooperative effort between the Idaho State Treasurer, the Small Business Administration "SBA," and the banking community to make capital available to small businesses in the State.

The Office's accounting structure does not clearly separate the costs or identify the salary and staff time required to operate each program. Our review of budget documents and related testimonies and presentations to the Joint Finance Appropriations Committee for the last three legislative sessions disclosed no evidence that the annual contribution and staff support for the annual conference, or the other two programs not specifically authorized by statute, were identified, discussed, or authorized.

We did not assess the content, necessity, or benefit of the "Smart Women, Smart Money Conference" or the other programs not specifically authorized by statute. Our evaluation focused primarily on the use of public funds and resources for activities not authorized by statute or appropriation law.

RECOMMENDATION

We recommend that the Office of State Treasurer discontinue using State funds and staff resources to support programs not authorized by the Legislature in statute or specifically provided for in appropriation law.

AGENCY'S CORRECTIVE ACTION PLAN

The State Treasurer's Office disagrees with the finding that programs supported by the Treasurer's Office are not authorized by statute. HB 165 (1999 Legislative Session) clearly authorized the purchase of the guaranteed portion of SBA loans. The purchase of these loans constitutes the Idaho Prime Loan Program. This program is a cooperative effort with the Small Business Administration and is authorized in IC 67-1210 (d).

The Treasurer's Office has sponsored the Smart Women, Smart Money conference for twelve years and never has a question been raised about our support for this program. In fact, we have asked the legislative auditor in the past about staff working on the conference and been told it was fine as long as it did not interfere with the performance of other regular duties. Further, the State Treasurer's Office has introduced legislation to clarify the duties of the Treasurer to include Financial Literacy. We will be seeking outside legal counsel to advise us relative to restructuring the 501c3 non-profit.

FINDING 3

Travel costs for the annual bond rating trips are not paid through the State accounting system or properly documented, and some amounts exceeded allowed limits.

Tax Anticipation Notes (TANs) are issued by the State Treasurer's Office at the beginning of each fiscal year to provide cash-flow for current operations. This process involves contracting with an underwriter and financial advisor to develop and market the TANs. Each year, as part of a long standing practice, the State Treasurer invites a delegation of other State officials and staff to travel to New York City to meet with bond rating agencies. We did not evaluate the necessity or

benefit of the annual trip to New York City to secure a favorable bond rating, but rather tested for compliance to the State of Idaho's fiscal policies, documentation, and travel policy requirements.

Most travel arrangements and costs for the annual New York City trip are handled by the contract financial advisor, which includes hotel reservations, ground transportation, and some meals. These costs are paid directly by the contract financial advisor and reimbursed through a deduction from the net proceeds of the TANs by the bond underwriter. None of these travel costs are paid through the State accounting system, although ultimately the State does pay the costs from the proceeds of the TANs. Official travel vouchers are not prepared, as required by Idaho Code, Section 67-2006, to document these expenses or ensure that the costs are within the limits and requirements established in State Travel Policy. In addition, State Treasurer's Office staff do not review the invoices or approve the amounts for these travel costs prior to the deduction from the TAN proceeds by the bond underwriter.

Documents acquired from the contract financial advisor for the June 2010 trip indicate that some costs exceeded allowed limits or were not the most economical and practical type or mode of travel as required by State Travel Policy. The following examples were identified from the available documents:

- The cost of several meals for the official party exceeded the limits allowed by State Travel Policy, and some meals charged on the hotel invoice appear to be for guests rather than members of the official party.
- Executive limousine services were used to transport State officials, staff, and guests from the airport to the hotel and other locations during the five-day trip. The cost of limousine services exceeds the cost of regular taxis or other transportation options, and no evidence was available to justify the additional cost or ensure that no part of these costs were for guests traveling with the official party.

In addition, only one of the five members of the official party submitted a travel voucher to seek reimbursement for meals or other usual and customary travel costs allowable under State Travel Policy. Although travelers are not required to seek reimbursement for all costs, meals during the trip estimated at more than \$200 per traveler were not claimed or otherwise paid for with State funds. This situation raises serious concerns that meals and other costs of official travel were paid for by others and that pecuniary benefits in excess of \$50 were received in violation of Idaho Code, Section 18-1356.

This long-standing practice to allow the contract financial advisor to incur most of the travel costs, and then deduct these expenses from the proceeds of the TAN, provides no safeguards that State Travel Policy requirements are followed or that State officials are protected from violations of the pecuniary benefit limits in Idaho Code.

RECOMMENDATION

We recommend that the State Treasurer's Office properly document all travel costs, adhere to the requirements and allowable cost limits established in Idaho Code and State Travel Policy, and inform other State officials accompanying the State Treasurer of such requirements. All official travel must be paid for directly through the State accounting system established for this purpose, rather than netted against bond proceeds, and any third-party resources available to cover official travel costs must be clearly identified and documented to ensure that pecuniary benefits in excess of the limits established by Idaho Code, Section 18-1356 have not been received.

AGENCY'S CORRECTIVE ACTION PLAN

The State Treasurer's Office disagrees with the finding and disputes many of the statements set forth in the finding. The State Treasurer's Office has been issuing the Tax Anticipation Notes for the past 28 years by three separate Treasurers. Never has an issue been raised relative to trip costs being netted from the proceeds of the TAN. It is industry standard for expenses to be handled in this manner and meets all IRS and bond counsel requirements. All meals and other costs are compliant with Idaho statutes relative to pecuniary benefits - and evidence was given to support that contention.

However, the Treasurer's Office does agree that travel vouchers need to be filed for all participants attending the TAN presentation. To that end, this office has begun using the Travel Express system administered by the State Controller's Office. Travel vouchers will be prepared for participants so it is clearly evident that all expenses are transparent and within state policies.

AGENCY RESPONSE



STATE OF IDAHO

OFFICE OF THE STATE TREASURER

RON G. CRANE STATE TREASURER

Don Berg
Legislative Audits
P.O. Box 83720
Boise, ID 83720-0054

January 26, 2012

Dear Mr. Berg:

Thank you for the results of the management review of the State Treasurer's Office. I have reviewed the legislative audit for the Fiscal Years 2008, 2009, and 2010 and accept it as presented.

As always it is a pleasure to work with you and your staff. I appreciate your efforts to streamline and improve the operations of our office.

Sincerely,

A handwritten signature in black ink, appearing to read "Ron G. Crane", with a long horizontal flourish extending to the right.

Ron G. Crane
State Treasurer

APPENDIX

HISTORY

Article IV, Section I, of the Idaho Constitution created the Office of the State Treasurer. The State Treasurer is an elected official and serves a four-year term.

STATUTORY AUTHORITY AND PURPOSE

Duties of the State Treasurer's Office, as stated in Title 67, Chapters 12 and 13 of the Idaho Code include:

1. Maintaining a central depository for money collected by the State.
2. Issuing receipts for deposits made by State agencies.
3. Redeeming and paying warrants issued by the Office of the State Controller and authorizing all electronic fund transfers (EFTs) and electronic benefit transfers (EBTs).
4. Keeping daily balances of all money received and disbursed for each State fund.
5. Investing surplus cash and overseeing timely collections, deposits, and disbursements of revenue.
6. Serving as custodian of securities and investments for various separate accounts and agencies.
7. Serving as custodian for insurance companies' security deposits that are required before an insurance company may conduct workers' compensation insurance business in Idaho.
8. Serving as custodian of the State Endowment Fund.
9. Serving as agent and administrator of the Local Government Investment Pool, which allows cities, counties, school districts, and other local governments to pool funds for investment purposes.
10. Serving as Idaho's municipal and State debt information depository (SID).
11. Serving as a member of the State Board of Canvassers.
12. Serving as chairman of the College Savings Program Board.
13. Serving as ex-officio advisor to the Idaho Housing and Finance Association.
14. Serving as chairman of the Idaho Bond Bank Authority.
15. Serving as chairman of the Idaho Credit Rating Enhancement Committee.

Since 1980, the State Treasurer has provided an investment option for municipalities and other tax exempt self-governing agencies through agreements with each agency as their agent. Idaho Code, Section 67-2328, authorizes this joint exercise of power activity.

ORGANIZATION

The State Treasurer employed 17 regular employees and 1 group employee on June 30, 2010. The Office is organized into the following operations: statewide accounting and data processing, administration, banking, State investments, the Local Government Investment Pool, and information technology.

FUNDING

In fiscal year 2010, the State Treasurer's Office received \$1,390,500 in General Fund money to cover the cost of completing the constitutional duties of the office. Professional fees are charged to cover the costs of the investment division.